

Message Text

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PAGE 01 STATE 132444
ORIGIN AGRE-00

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USEEC

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: US/EC CONSULTATION: EC PRODUCTION SUBSIDY ON
CERTAIN PROCESSED FRUITS AND VEGETABLES

REF.: STATE 130608

1. FOLLOWING ITEM PROVIDED FOR USE AT CONSULTATIONS TO
FOLLOW UP REPRESENTATIONS REQUESTED REFTEL.

2. TALKING POINTS:

-- THE EC 1978/79 FARM PRICE PACKAGE INCLUDES PROVISIONS
FOR PRODUCTION SUBSIDIES TO EC PROCESSORS OF DRIED PRUNES,
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PAGE 02 STATE 132444

CANNED PEACHES, TOMATO CONCENTRATES, PEELED TOMATOES, AND
TOMATO JUICE PROVIDED THE PROCESSORS PAY MINIMUM PRICES TO
PRODUCERS OF THESE ITEMS. EC AUTHORITIES ARE NOW IN THE
PROCESS OF ESTABLISHING THE LEVEL OF SUBSIDY PAYMENTS AND
THE LEVEL OF MINIMUM GROWER PRICES.

-- AFTER THE 1978/79 PRICE PACKAGE WAS FINALIZED, WE

REQUESTED THE COMMISSION NOT TO ANNOUNCE THE SUBSIDY LEVELS PRIOR TO THIS MEETING, SO THAT WE MIGHT CONSULT ON THE TRADE IMPACT OF THESE SUBSIDIES.

-- WHEN THE SUBSIDIES WERE PROPOSED, THE U.S. DID NOT PRO-

TEST THE PRINCIPLE INVOLVED. HOWEVER, WE ARE ALARMED AND CONCERNED THAT THE MAGNITUDE OF THE SUBSIDIES, ESPECIALLY FOR PRUNES AND CANNED PEACHES, WILL, IN THE LONG RUN PROVIDE A MAJOR INCENTIVE TO EXPAND PRODUCTION OF THESE ITEMS DOMESTICALLY THEREBY RESULTING IN DISPLACEMENT OF AMERICAN PRODUCTS IN PRIME EC MARKETS. WE BELIEVE THIS EROSION WILL OCCUR OVERTIME DESPITE REPORTS THAT THE TOTAL SUBSIDY PAYMENT WOULD BE LIMITED TO A SPECIFIC VOLUME, I.E., THE MOVING AVERAGE OF THE THREE MOST RECENT YEARS.

-- THIS COULD LEAD TO A SERIOUS IMPAIRMENT OF THE TRADE BENEFITS ACCRUING TO THE UNITED STATES AS A RESULT OF GATT BINDINGS ON SUCH PRODUCTS AS DRIED PRUNES AND CANNED PEACHES.

-- OUR OBJECTIVE IS TO LIMIT SUBSIDY LEVELS SO THAT THE EFFECTIVE LEVEL OF SUPPORT -- INCLUDING IMPORT DUTIES -- DOES NOT IMPAIR TRADITIONAL TRADE PATTERNS.

-- IN THE LIGHT OF THE ABOVE WE ASK THAT BEFORE ANNOUNCING LIMITED OFFICIAL USE

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PAGE 03 STATE 132444

ING THE SUBSIDY LEVEL YOU MODERATE ITS SIZE OR ADOPT OTHER MEASURES TO ASSURE THAT THE COMPETITIVENESS OF THESE U.S. EXPORTS WILL NOT BE AFFECTED IN THE EC MARKET.

3. BACKGROUND:

IN THE CASE OF DRIED PRUNES, THE U.S. HAS ACCOUNTED FOR BETWEEN 40 TO 45 PERCENT OF THE TOTAL EC MARKET IN NORMAL YEARS WITH U.S. EXPORTS TO THE EC REPRESENTING ABOUT A FIFTH OF OUR TOTAL PRODUCTION. IT IS OUR UNDERSTANDING THAT THE PROPOSED SUBSIDY ON DRIED PRUNES MAY BE SET AT ABOUT US\$373 PER METRIC TON.

IF THE EC WERE TO REMOVE THE PRESENT CXT OF 16 PERCENT AND TO LIMIT THE SUBSIDY TO 9 U.S. CENTS PER POUND, OR ABOUT US\$200 PER TON, THIS WOULD ALLOW FRENCH PRUNE PROCESSORS ADEQUATE COMPENSATION AND STILL MAINTAIN MARKET PRICES WITHIN THE COMMUNITY AT WORLD LEVELS. SHOULD THE DUTY BE REDUCED, FOR INSTANCE TO THE 6.5 PERCENT RATE REQUESTED BY THE U.S. IN THE MTN'S THEN THE SUBSIDY WOULD HAVE TO BE ADJUSTED ACCORDINGLY TO MAINTAIN COMPETITIVENESS OF U.S. PRODUCTS.

4. THE ROLE OF U.S. DRIED PRUNES HAS BEEN ESPECIALLY HELPFUL DURING THE PAST FEW YEARS TO FRENCH PRODUCERS WHO HAVE PURCHASED SIGNIFICANT QUANTITIES OF U.S. PRUNES TO REPLACE THEIR OWN SHORT CROPS. U.S. SUPPLIERS HAVE NOT ATTEMPTED TO DEVELOP A MARKET FOR HIGH QUALITY U.S. PRUNES IN FRANCE GIVEN THE LOCAL PRODUCTION IN THAT COUNTRY. THE U.S. HAS

BEEN A TRADITIONAL AND RELIABLE SUPPLIER OF LONG STANDING TO A NUMBER OF OTHER MEMBER STATES. WITHIN THESE MARKETS, FRENCH PRODUCERS HAVE COMPETED SUCCESSFULLY FOR YEARS WITH U.S. PRUNE SUPPLIERS. THE ADDITIONAL PREFERENCE FOR THE FRENCH, AS NOW BEING SERIOUSLY CONSIDERED, WOULD PUT U.S. SUPPLIERS AT A GREAT MARKET DISADVANTAGE BY ALLOWING THE FRENCH SUPPLIERS HIGHER EARNINGS, PART OF WHICH COULD LIMITED OFFICIAL USE

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PAGE 04 STATE 132444

BE USED TO GAIN NEW AND PRIME MARKET OUTLETS AND THEREBY GENERALLY DISRUPT THE MARKET FOR U.S. SUPPLIERS.

5. IN THE CASE OF CANNED PEACHES, THE EC IS ONE OF OUR LARGEST OFFSHORE MARKETS, TAKING ABOUT A FIFTH OF OUR TOTAL EXPORTS. THE PROPOSED SUBSIDY OF ABOUT US\$4.60 PER CASE (BASIS 24 NO. 2 1/2 CANS) MIGHT LEAD TO THE ELIMINATION THE UNITED STATES AS A SUPPLIER TO THE COMMUNITY SINCE U.S. PEACHES ARE NOW SELLING IN HAMBURG AT \$10 TO \$11 PER CASE, CIF BASIS.

6. U.S. EXPORTS TO THE EC FOR THE COMMODITIES FOR WHICH SUBSIDIES HAVE BEEN PROPOSED ARE SHOWN BELOW IN TERMS OF BOTH QUANTITY AND VALUE FOR THE PAST FIVE YEARS:

DRIED CANNED TOMATO PEELED TOMATO
YEAR PRUNES PEACHES CONCENTRATES TOMATOES JUICE
QUANTITY-----METRIC TONS-----

1973	27,016	18,387	1,371	384	82
1974	19,690	10,247	406	50	63
1975	32,363	9,761	236	150	63
1976	25,929	11,347	207	50	37
1977	30,168	10,693	240	20	157

VALUE-----1,000 DOLLARS-----

1973	22,791	7,116	618	69	29
1974	15,368	5,084	284	18	23
1975	22,690	4,747	283	60	50
1976	19,584	5,342	141	26	18
1977	29,499	5,040	231	24	140

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PAGE 05 STATE 132444

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NNN

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